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SUBJECT: ALLAN HUBBARD'S CALL ON INTERIOR MINISTER SARKOZY

REF: PARIS 5232

Classified By: Ambassador Craig R. Stapleton for reasons 1.4 (b) and (d).

1. (C) SUMMARY. Ambassador Stapleton and National Economic Council Director Allan Hubbard met with Interior Minister Nicolas Sarkozy on August 1. Sarkozy expressed his admiration for President Bush and said he looked forward to the opportunity to tackle France's economic and social problems with the same directness for which the President is justly famous. Sarkozy confirmed that he would be running for President of France in 2007. He said his own struggle to rise to high office, as the son of immigrants challenging entrenched elites, in part explained his deep admiration for America's values. He said he would stress opportunity and making a "deep break with the past" -- by proposing significant change to France's social model -- in his 2007 campaign. On economic issues, Sarkozy reprised many of his now familiar policy themes: France's economic model holds back growth; people need to work more and be rewarded for doing so; and people need to be told the truth about the economic situation. He was upbeat about France's future if the country seized the opportunity that reforms could bring. He also tossed out a few of the "policy zingers" for which he is well known, notably "The European Central Bank confuses a strong currency with a strong economy," and "France needs to do what Reagan did in the U.S., Thatcher in Britain, and Gonzales in Spain." End Summary.

2. (U) Ambassador Stapleton and Allan Hubbard, Director of the National Economic Council, met with France's Minister of Interior, Nicolas Sarkozy on 1 August. Sarkozy is also the president of the Union for a Popular Movement (UMP) party, a coalition of center-right parties founded by President Chirac in 2002. The meeting took place in Sarkozy's office at the Ministry of the Interior and was also attended by Sarkozy Chief of Staff Claude Gueant and Interior Ministry Staffer Cederic Goubet. Embassy Econ Counselor, Poloff and Economic Analyst (as interpreter) accompanied Mr. Hubbard and Ambassador Stapleton.

#### ADMIRATION FOR PRESIDENT BUSH

3. (C) Sarkozy expressed his admiration for President Bush. Sarkozy said that, like the President, he too was committed to keeping his word and to dealing honestly with the real problems of the country, "unlike the rest of those politicians." Throughout the hour-long meeting, Sarkozy returned again and again to the importance of leveling with people. He illustrated his point by saying the "French people have to be told the truth -- and they want to hear it." He added that most politicians, and specifically President Chirac, just keep stringing the people along with their "constant tergiversating." Economic Council Director Hubbard's presentation of the President's direct and principled tackling of America's major domestic challenges (taxes, social security, education), drew the high compliment from Sarkozy that he too would like to tackle the same problems, in the same way, for France.

#### DISAGREEING WITH VERSUS UNDERCUTTING THE U.S.

4. (C) Sarkozy lamented the troubled state of U.S.-France relations during recent years. He drew a sharp distinction between disagreeing with friends and undercutting them. He said, "we should always be able to disagree." Calling it something he "would never do", he cited President Chirac's, and then-Foreign Minister de Villepin's, use of France's Security Council veto against the U.S. in February 2002 as an unjustifiable and excessive reaction to a difference of views. He added that he would have advised the U.S. not to undertake the invasion and occupation of Iraq -- but that that didn't prevent him from "feeling it personally when American soldiers die in combat." He proudly pointed out how, at the height of anti-American feeling and anti-U.S. demonstrations (contemporaneous to Sarkozy's first stint as Minister of the Interior (2002 - 2004)), he took it as a personal responsibility to see to it that "no U.S. Embassy or Consulate was so much as touched" by demonstrators.

#### IDENTIFYING WITH AMERICA'S VALUES

15. (C) "They call me 'Sarkozy the American,'" he said, "they consider it an insult, but I take it as a compliment." Sarkozy stressed how much he "recognized himself" in America's values. He recalled how as a boy, he told his father that he wanted to grow up to be president. He said his Hungarian-born father retorted, "In that case, go to America -- because with a name like Sarkozy, you'll never make it here." Proving that wrong, Sarkozy said, was a touchstone for his efforts both to succeed and to transform France into a place where "outsiders" like him could also enjoy opportunity untrammelled by prejudice. Comment: Very much unlike nearly all other French political figures, Sarkozy is viscerally pro-American. For most of his peers the U.S. is a sometimes reviled or admired, but decidedly foreign, other. Sarkozy identifies with America; he sees his own rise in the world as reflecting an American-like saga. End Comment.

#### FIGHTING FRANCE'S ELITE

16. (C) Sarkozy pointed to his own political career as an example of both his success and the difficulty of achieving it. "I'm not a member of the elite...I'm someone who wants to speak for the France that gets up every morning and works," he said, as he recalled his own rise from "knowing nobody and beginning as a simple party supporter, and climbing every step in the ladder" to his current bid for the presidency. With some vehemence, Sarkozy insisted on his having had to "challenge those stronger than me" every step of way.

#### CONFIRMING HE WILL RUN

17. (C) Sarkozy confirmed his intention to run for president to Ambassador Stapleton and NEC Director Hubbard, saying, "I am going to be a candidate in 2007". Outlining his campaign strategy, Sarkozy said, "we are going to propose change to the French people." "I'm convinced that it can work...people want to believe they can succeed." Sarkozy then touched on many of his specific proposals for providing more opportunity for the able and more support for the disadvantaged -- tax cuts, labor law reform, affirmative action, immigration reform, and monetary policy that "recognizes that the currency is an instrument for supporting a strong economy."

#### RECALLING REAGAN, THATCHER AND GONZALES

18. (C) On economic affairs, Sarkozy repeated his often-stated assertion that the French economic model is "bad." France needs to do what Spain, the UK and other successful countries have done over the past twenty years; take the best of what they have done and adopt those policies in France. In response to Mr. Hubbard's question on what Sarkozy's economic vision for France was, Sarkozy said that the French people have to understand that they need to work more and that the Government must make it more profitable for people who do so. He said that France needed to go through a period similar to the U.S. under Reagan, the UK under Thatcher, and Spain under Gonzalez. "France is not an old country," he said, "but right now it's acting like one."

#### INCENTIVES FOR TAKING INITIATIVE

19. (C) Sarkozy explained his theory that unemployment benefits should be higher than they currently are for people immediately after they are laid off. However they should quickly phase out to provide an incentive for people to look for work. Unemployed people should be required to look for work; now they are not required to. Echoing comments made by Finance Minister Breton, Sarkozy said, "people are ready for the politics of truth." He added that his directly expressed assessments of France's economic problems and his insistent advocacy of work, innovation and entrepreneurship in fact contribute to his popularity. "Some people told me never to say such things, people will hate you; clearly they don't hate me," he observed.

#### OVER-VALUED EURO AND NO ALAN GREENSPAN

10 (C) On the deficit, Sarkozy said that for 25 years France has been living beyond its means. Now it is paying the price for that. He said that the U.S. had two advantages that France did not have: "Greenspan and the dollar." He said that France was suffering from no longer having control of its own currency and observed that European Central Bank (ECB) president Trichet was pursuing exactly the wrong policies; "he confuses a strong currency with a strong economy." Europe needed a pro-growth ECB, not one focused on fighting inflation only. The U.S., he observed, "has often had its strongest economy when the dollar was at its weakest." Turning to Chairman Greenspan, Sarkozy said, "he is a genius. A genius. He has pursued exactly the right policies."

## FRANCE'S ECONOMIC CHALLENGES

11. (C) Returning to his priorities for France, Sarkozy noted that France's biggest challenges were outsourcing, a lagging research sector, savings that are "too static and don't really help move the economy," and a lack of profitable mid-size companies; "we have lots of big ones and lots of really small ones, but few in between." He sees natural strengths for France in the health, agriculture and food, transportation, communication and nuclear energy sectors.

## WORKING TOGETHER AT THE WTO

12. (C) Responding to Mr. Hubbard's observation on the need for the Doha trade round to move forward this autumn, Sarkozy agreed, and noted that the EU needed to reach a better understanding with the U.S. on agricultural issues. He said that U.S. and EU officials were talking but prescribed much more intensive discussion so that a common understanding could be reached. If that happened, he believed the upcoming Hong Kong ministerial could be a success.

## COMMENT

13. (C) For many years, Nicolas Sarkozy has been France's most popular politician. Current polls show his approval ratings holding steady at around 60 percent, and defeating any probable opponent in 2007. By experience and conviction -- his experience as interior minister and his "liberal," free-market oriented convictions -- he seems particularly well-suited to lead France in meeting the key challenges it now faces: security in this era of global terrorism and prosperity in this era of adapting to economic globalization. In addition, Sarkozy's deep identification with American values -- opportunity, initiative, competition, society that sustains individual liberty as much as it supports national power, make him France's best hope for catalyzing the shift in social values that the French need to make if they are to take full advantage of globalization.

## COMMENT CONTINUED

14. (C) Sarkozy's vision for France is a powerful one, and, as his popularity reflects, it resonates with a big part of the electorate. However, resistance to social change is particularly strong in France. Attachment to the benefits and advantages that most of them receive, in one way of another, from the state -- the substance of the "French social model" -- is very strong among ordinary French people. Sarkozy's popularity may be a reflection of change the French would like to make, but are too conservative to in fact undertake. End Comment.

STAPLETON